
THE CITY OF TECUMSEH

(Including the Tecumseh Utility Authority and the Tecumseh Growth and Development Authority)

FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

TABLE OF CONTENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Position	1
Statement of Activities	2

FUND FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	4
Statement of Net Position – Proprietary Funds	5
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	6
Statement of Cash Flows – Proprietary Funds	7
NOTES TO THE FINANCIAL STATEMENTS	8

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards	20
Schedule of Expenditures of State Awards	21

INDEPENDENT AUDITOR'S REPORT	22
------------------------------------	----

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	25
---	----

**THE CITY OF TECUMSEH
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Governmental Activities	Business-type Activities	Total 2013
ASSETS			
Current assets:			
Cash and demand deposits	657,057	1,989,952	2,647,009
Certificates of deposit	376,068	307,439	683,507
Restricted cash and investments	142,187	5,490,611	5,632,798
Accounts receivable	131,088	894,927	1,026,015
Allowance for doubtful accounts	0	(433,586)	(433,586)
Prepaid expenses	42,210	20,334	62,544
Internal balances	(155,609)	155,609	0
Grants receivable	190,001	0	190,001
Total current assets	1,383,002	8,425,286	9,808,288
Noncurrent assets:			
Capital assets:			
Depreciable capital assets	7,046,414	14,152,042	21,198,456
Accumulated depreciation	(2,811,325)	(5,524,469)	(8,335,794)
Land	228,350	122,698	351,048
Water rights	0	2,624,609	2,624,609
Construction in progress	26,620	1,305,106	1,331,726
Net capital assets	4,490,059	12,679,986	17,170,045
Total assets	5,873,061	21,105,272	26,978,333
LIABILITIES			
Current liabilities:			
Accounts payable	12,486	251,493	263,979
Construction accounts payable	0	489,529	489,529
Payroll payable	36,862	16,900	53,762
Sales tax payable	0	5,788	5,788
Current portion of notes payable	0	665,686	665,686
Bond discount	0	(3,471)	(3,471)
Accrued interest payable	0	27,488	27,488
Total current liabilities	49,348	1,453,413	1,502,761
Noncurrent liabilities:			
Compensated absences	108,362	60,892	169,254
Refundable deposits	0	424,208	424,208
Notes payable, less current portion	0	11,828,920	11,828,920
Bond discount	0	(41,650)	(41,650)
Total noncurrent liabilities	108,362	12,272,370	12,380,732
Total liabilities	157,710	13,725,783	13,883,493
DEFERRED INFLOWS OF RESOURCES			
Grant revenues for future periods	3,735	0	3,735
NET POSITION			
Net investment in capital assets	4,490,059	185,380	4,675,439
Restricted for:			
Fire department	72,488	0	72,488
Retirement plan	18,578	0	18,578
Streets	349,587	0	349,587
Cemetery	384,103	0	384,103
Debt	0	1,086,531	1,086,531
Capital assets	0	4,000,000	4,000,000
Refundable deposits	0	20,128	20,128
Unrestricted	396,801	2,087,450	2,484,251
TOTAL NET POSITION	5,711,616	7,379,489	13,091,105

The accompanying notes are an integral part of these financial statements

**THE CITY OF TECUMSEH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total 2013
Governmental activities:							
General government	(442,546)	22,548	35,289	344,750	(39,959)	0	(39,959)
Court	(52,299)	306,217	0	0	253,918	0	253,918
Police	(845,160)	39,370	50,835	0	(754,955)	0	(754,955)
Fire	(358,530)	3,758	49,935	0	(304,837)	0	(304,837)
Code enforcement	(170,309)	38,772	0	0	(131,537)	0	(131,537)
Emergency management	(11,017)	0	0	0	(11,017)	0	(11,017)
Streets	(309,882)	0	60,571	0	(249,311)	0	(249,311)
Cemetery	(157,225)	77,601	0	0	(79,624)	0	(79,624)
Park	(205,543)	0	0	0	(205,543)	0	(205,543)
Total governmental activities	(2,552,511)	488,266	196,630	344,750	(1,522,865)	0	(1,522,865)
Business-type activities:							
Sewer *	(802,033)	536,155	0	11,000	0	(254,878)	(254,878)
Electric **	(2,797,786)	3,762,910	20,000	0	0	985,124	985,124
Water ***	(1,148,885)	1,114,353	0	0	0	(34,532)	(34,532)
Trash	(416,256)	449,504	0	0	0	33,248	33,248
Economic development	(22,584)	0	0	0	0	(22,584)	(22,584)
Total business-type activities	(5,187,544)	5,862,922	20,000	11,000	0	706,378	706,378
Total all activities	(7,740,055)	6,351,188	216,630	355,750	(1,522,865)	706,378	(816,487)
General revenues:							
Taxes:							
Sales taxes levied for general purposes					612,959	0	612,959
Sales taxes levied for capital improvements					306,480	0	306,480
Franchise and public service taxes					87,347	0	87,347
Tax incremental financing					88,008	0	88,008
Use taxes					65,139	0	65,139
Payments in lieu of taxes for general purposes					115,352	0	115,352
Fees and miscellaneous					21,585	363,298	384,883
Investment income					5,120	17,533	22,653
Transfers					66,505	(66,505)	0
Total general revenues and transfers					1,368,495	314,326	1,682,821
Change in net position					(154,370)	1,020,704	866,334
Beginning net position					5,865,986	6,316,960	12,182,946
Prior period adjustment					0	41,825	41,825
Ending net position					5,711,616	7,379,489	13,091,105

* Includes \$160,240 interest

** Includes \$15,619 interest

*** Includes \$15,620 interest

The accompanying notes are an integral part of these financial statements

**THE CITY OF TECUMSEH
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General Fund	Other Funds	Total 2013
ASSETS			
Cash and demand deposits	118,105	538,952	657,057
Certificates of deposit	200,000	176,068	376,068
Restricted cash and investments	142,187	0	142,187
Revenue receivable	111,393	19,695	131,088
Prepaid expenses	42,210	0	42,210
Grants receivable	190,001	0	190,001
Total assets	803,896	734,715	1,538,611
LIABILITIES			
Accounts payable	11,461	1,025	12,486
Payroll payable	36,862	0	36,862
Total liabilities	203,932	1,025	204,957
DEFERRED INFLOWS OF RESOURCES			
Grant revenues for future periods	3,735	0	3,735
FUND BALANCE			
Non-Spendable			
Prepaid expenses	42,210	0	42,210
Restricted for:			
Fire department	72,488	0	72,488
Retirement plan	18,578	0	18,578
Streets	0	349,587	349,587
Cemetery	0	384,103	384,103
Unrestricted			
Unassigned	462,953	0	462,953
Total fund balance	596,229	733,690	1,329,919
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	803,896	734,715	1,538,611
Reconciliation of general fund balance to net position of governmental activities:			
Fund balance	596,229	733,690	1,329,919
Capital assets	7,301,384	0	7,301,384
Accumulated depreciation	(2,811,326)	0	(2,811,326)
Compensated absences	(108,362)	0	(108,362)
Net position	4,977,925	733,690	5,711,615

The accompanying notes are an integral part of these financial statements

**THE CITY OF TECUMSEH
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund	Other Funds	Total 2013
REVENUES			
Taxes	1,094,793	65,139	1,159,932
Payments in lieu of taxes	115,352	0	115,352
Intergovernmental	80,750	60,570	141,320
Grants	400,059	0	400,059
Fines and fees	249,552	0	249,552
Licenses and permits	38,772	0	38,772
Rents and royalties	18,848	0	18,848
Cemetery fees	59,571	18,030	77,601
Interest	2,650	2,470	5,120
Other revenues	125,078	0	125,078
TOTAL REVENUES	2,185,425	146,209	2,331,634
EXPENDITURES			
General government	392,169	0	392,169
Court	49,807	0	49,807
Police	808,347	0	808,347
Fire	301,458	0	301,458
Code enforcement	169,899	0	169,899
Emergency management	3,529	0	3,529
Streets	196,696	23,189	219,885
Cemetery	153,337	0	153,337
Park	158,595	0	158,595
Capital outlay	209,642	0	209,642
TOTAL EXPENDITURES	2,443,479	23,189	2,466,668
REVENUES OVER (UNDER) EXPENDITURES	(258,054)	123,020	(135,034)
OTHER FINANCING SOURCES (USES)			
Interfund transfers	66,505	0	66,505
NET CHANGE IN FUND BALANCES	(191,549)	123,020	(68,529)
BEGINNING FUND BALANCE	787,778	610,670	1,398,448
ENDING FUND BALANCE	596,229	733,690	1,329,919
Reconciliation of the change in the general fund balance to the change in net position of governmental activities:			
Net change in fund balances - total governmental funds	(191,549)	123,020	(68,529)
Capital asset purchases capitalized	209,642	0	209,642
Depreciation expense	(288,362)	0	(288,362)
Change in accrued compensated absences	(7,122)	0	(7,122)
Change in net position of governmental activities	(277,391)	123,020	(154,371)

The accompanying notes are an integral part of these financial statements

**THE CITY OF TECUMSEH
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013**

	Tecumseh Utility Authority	Tecumseh Growth & Development Authority	Total 2013
ASSETS			
Current assets:			
Cash and cash equivalents	1,573,842	416,110	1,989,952
Certificates of deposit	200,000	107,439	307,439
Restricted cash and investments	5,490,611	0	5,490,611
Accounts receivable	894,927	0	894,927
Allowance for doubtful accounts	(433,586)	0	(433,586)
Due from other funds	155,609	490	156,099
Prepaid expenses	20,334	0	20,334
Total current assets	7,901,737	524,039	8,425,776
Noncurrent assets:			
Capital assets:			
Depreciable property and equipment	14,152,042	0	14,152,042
Accumulated depreciation	(5,524,469)	0	(5,524,469)
Land	80,939	41,759	122,698
Water rights	2,624,609	0	2,624,609
Construction in progress	1,305,106	0	1,305,106
Net capital assets	12,638,227	41,759	12,679,986
Total assets	20,539,964	565,798	21,105,762
LIABILITIES			
Current liabilities:			
Accounts payable	251,493	0	251,493
Construction accounts payable	489,529	0	489,529
Payroll payable	16,900	0	16,900
Sales tax payable	5,788	0	5,788
Due to other funds	0	490	490
Current portion of debt	665,686	0	665,686
Bond discount	(3,471)	0	(3,471)
Accrued interest payable	27,488	0	27,488
Total current liabilities	1,453,413	490	1,453,903
Noncurrent liabilities:			
Compensated absences	60,892	0	60,892
Refundable deposits	424,208	0	424,208
Debt, less current portion	11,828,920	0	11,828,920
Bond discount	(41,650)	0	(41,650)
Total noncurrent liabilities	12,272,370	0	12,272,370
Total liabilities	13,725,783	490	13,726,273
NET POSITION			
Net investment in capital assets	143,621	41,759	185,380
Restricted for:			
Debt service	1,086,531	0	1,086,531
Capital assets	4,000,000	0	4,000,000
Refundable deposits	20,128	0	20,128
Unrestricted	1,563,901	523,549	2,087,450
Total net position	6,814,181	565,308	7,379,489

The accompanying notes are an integral part of these financial statements

**THE CITY OF TECUMSEH
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Tecumseh Utility Authority	Tecumseh Growth & Development Authority	Total 2013
OPERATING REVENUES			
Electric	3,762,910	0	3,762,910
Sewer	536,155	0	536,155
Trash	449,504	0	449,504
Water	1,114,353	0	1,114,353
Connection fees	34,761	0	34,761
Late payment fees	128,650	0	128,650
Other income	219,887	0	219,887
Total operating revenues	6,246,220	0	6,246,220
OPERATING EXPENSES			
Administration	515,887	4,852	520,739
Sewer treatment plant	329,608	0	329,608
Sewer & water lines	358,588	0	358,588
Electric	2,653,196	0	2,653,196
Water treatment plant	824,999	0	824,999
Trash	287,284	0	287,284
Economic development	0	17,732	17,732
Total operating expenses	4,969,562	22,584	4,992,146
OPERATING INCOME (LOSS)	1,276,658	(22,584)	1,254,074
NON-OPERATING REVENUES (EXPENSES)			
Interest income	17,280	253	17,533
Interest expense	(191,479)	0	(191,479)
Trustee fees	(3,919)	0	(3,919)
Total non-operating revenues (expenses)	(178,118)	253	(177,865)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,098,540	(22,331)	1,076,209
Interfund transfers	(137,474)	70,969	(66,505)
CHANGE IN NET POSITION	972,066	48,638	1,020,704
BEGINNING NET POSITION	5,800,290	516,670	6,316,960
Prior period adjustments	41,825	0	41,825
ENDING NET POSITION	6,814,181	565,308	7,379,489

The accompanying notes are an integral part of these financial statements

**THE CITY OF TECUMSEH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Tecumseh Utility Authority	Tecumseh Growth & Development Authority	Total 2013
Cash flows from operations:			
Cash received from:			
Customers	6,308,853	0	6,308,853
Other operating receipts	31,396	0	31,396
Cash payments for:			
Goods and services	(3,872,017)	(8,559)	(3,880,576)
Employees	(594,793)	(3,600)	(598,393)
Net cash provided from operations	1,873,439	(12,159)	1,861,280
Cash flows from capital financing activities:			
Capital expenditures	(599,168)	(60,614)	(659,782)
Net transfers to restricted accounts	(857,704)	0	(857,704)
Net cash from capital financing activities	(1,456,872)	87,044	(1,369,828)
Cash flows from non-capital financing activities:			
Interfund transfers	(300,000)	67,972	(232,028)
Net cash from non-capital financing activities	(300,000)	67,972	(232,028)
Cash flows from investing activities:			
Purchase certificates of deposit	1,200,000	0	1,200,000
Interest income	17,226	230	17,456
Net cash provided from investing activities	1,217,226	230	1,217,456
Net increase (decrease) in cash	1,333,793	143,087	1,476,880
Beginning cash	240,049	273,023	513,072
Ending cash	1,573,842	416,110	1,989,952

Reconciliation of income from operations to net cash from operations:			
Operating income (loss)	1,276,658	(22,584)	1,254,074
Adjustments to income from operations:			
Depreciation and amortization	432,588	0	432,588
Change in assets and liabilities:			
(Increase) decrease in receivables	89,339	(490)	88,849
Increase (decrease) in payables	74,854	(1,667)	73,187
Net cash provided by operations	1,873,439	(24,741)	1,848,698

** Activity in debt service accounts:	2004 Bonds	2012 Bonds	Meter Project	Total
Beginning cash and investments	417	684,512	261,139	946,068
From operating accounts	0	668,921	188,783	857,704
Principal payments	0	(415,000)	(101,517)	(516,517)
Interest payments	0	(150,614)	(31,239)	(181,853)
Bank fees	(417)	(18,506)	0	(18,923)
Investment income	0	52	0	52
Ending cash and investments	0	769,365	317,166	1,086,531

** Activity in restricted accounts is presented as supplemental information.

The accompanying notes are an integral part of these financial statements

The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2013

1. Summary of Significant Accounting Policies

The City of Tecumseh, Oklahoma, is a Home Rule City under Article 18, Section 3a of the Oklahoma constitution with its charter being approved April 10, 1969. The City operates under a council-manager form of government and provides the following services directly or through its component units: police, fire, streets, general administration, electric, sewer, trash, water, and economic development.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The more significant accounting policies established in GAAP and used by the City are discussed below.

1A. Financial Reporting Entity

In evaluating how to define the City for financial purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criteria for including a potential component unit within the reporting entity are the governing body's ability to exercise oversight control. The most significant manifestation of this ability is financial interdependency. Other considerations include, but are not limited to, selection of the governing authority, designation of management, the ability to significantly influence operations, and accountability for financial matters. The other criterion is the existence of special financing relationships regardless of the ability to exercise control.

1B. Blended Component Units

The Tecumseh Utility Authority (TUA) was established June 4th, 1959, to provide utility services to the citizens of the City. TUA is a legally separate entity established pursuant to the provisions of Title 60, Oklahoma Statutes 1971, section 176 to 180.3 of the Oklahoma Trust Act. The council members of the City are the trustees of the TUA, and the City is the beneficiary of the TUA. For financial reporting purposes, the TUA is reported as if it were part of the City's operations. The TUA does not present separate financial statements.

The Tecumseh Growth and Development Authority (TGDA) was established May 6, 1974, to develop and encourage industry in the City of Tecumseh. TGDA is a legally separate entity established pursuant to the provisions of Title 60, Oklahoma Statutes 1971, section 176 to 180.3 of the Oklahoma Trust Act. The trustees are appointed by the city council, with the mayor always being one trustee. The City is the beneficiary of the TGDA. For financial reporting purposes, the TGDA is reported as if it were part of the City's operations. The TGDA does not present separate financial statements.

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2013**

1C. Related Organization

The Tecumseh Housing Authority (THA) is excluded from the reporting entity because the City's accountability does not extend beyond appointing the board of trustees. The THA administers federal and/or other funding for improvements in housing conditions in the City. The THA issues separate financial reports, copies of which may be obtained from the THA.

1D. Basic Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police, fire, streets, and general government administration are classified as governmental activities. The City's utility services and economic development are classified as business-type activities.

1E. Government-wide Financial Statements

In the government wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues (sales and use taxes, certain intergovernmental revenues, permits, and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants. This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

1F. Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The following fund types are used by the City:

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2013**

Governmental Funds

The measurement focus of governmental funds in the fund statements is current financial resources. Generally, only current financial assets and liabilities are included on their balance sheets and only sources and uses of available spendable resources are presented on their operating statements. Fund balance is used as their measure of available spendable resources at the end of the period.

Proprietary Funds

The measurement focus of proprietary funds is economic resources, the objectives of which involves the determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The City maintains three proprietary funds, all of which are enterprise funds. Enterprise funds are used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues; has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges; or establishes fees and charges based on a pricing policy designed to recover similar costs.

1G. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual Basis

Both governmental and business-type activities in the government-wide financial statements and proprietary fund financial statements are presented using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual Basis

The governmental fund financial statements are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (both measurable and available). Available means collectible within the current period or within 30 days after year end. Expenditures are generally recognized when the related liability is incurred.

1H. Cash and Cash Equivalents

The City has defined cash and cash equivalents to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2013

1I. Investments

Investments are accounted for in accordance with GASB-31, *Accounting and Financial Reporting for Certain Investments*, which states that investments held at year end with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

1J. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The allowances for uncollectible accounts are based on historical trends and periodic aging.

1K. Interfund Activity

Interfund activity is reported either as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other Interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

1L. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Depreciation on these assets is provided on the straight-line basis over the following estimated useful lives:

Land improvements	5 years
Buildings and equipment	25 to 40 years
Vehicles and equipment	5 to 15 years
Infrastructure	40 years

GASB-34 required the City to report and depreciate new infrastructure assets effective with the 2004 year. Infrastructure assets include roads, sidewalks, bridges, traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has been reported in the financial statements. Retroactive reporting is not required.

1M. Compensated Absences

Employees are entitled to certain compensated absences based on their length of employment and subject to certain limitations. These compensated absences are expensed as earned.

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2013**

1N. Revenues and Expenditures

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as needed. Program revenues in the government-wide statements include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. In proprietary funds, operating revenues and expenses result from providing the goods or services that are the funds principal ongoing operations. Revenues and expenses not meeting this definition are non-operating revenues and expenses. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB-33. In applying GASB-33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

2. Deposits and Investments

The State of Oklahoma allows municipalities to invest in the following: direct obligations of the U.S. Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; and county, municipal or school district direct debt.

Custodial Credit Risk

Exposure to custodial credit risk related to deposits exists when the City holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the City's name; or collateralized without a written or approved collateral agreement.

The TUA has investments of \$769,365 at a trustee bank as required by its 2012 bond indenture. These investments consist of short-term treasury funds and are not insured or collateralized, but are invested in the same securities that would be used for collateral.

3. Restricted Cash and Investments

The TUA 2012 bond indenture requires the TUA to maintain a principal fund, an interest fund, and a sinking fund reserve for debt service at a trustee bank. Balances in these accounts at December 31 were \$77,261, \$27,529, and \$664,575 respectively, for a total of \$769,365.

The 2008 meter project lease-purchase equipment surcharge of \$6 per meter per month is deposited into a revenue fund account from which the lease payments are drafted. At year end the balance of that account was \$317,166.

The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2013

Meter deposits of \$424,208 are secured by \$404,080 of certificates of deposit.

4. Risk Management

The City is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. For the year just ended, claims of \$13,990 were made.

5. Long-term Debt

Business-type	Interest Rate	Maturity Date	Amount Issued	Outstanding	Security
Sewer system	1.75 - 2.35%	11/1/2026	8,190,000	7,775,000	utility revenues - 1cent sales tax
Water/Electric	3.95%	6/1/2023	1,138,661	719,606	utility fee
Water system	3.14%	3/15/2034	4,000,000	4,000,000	utility revenues - 1cent sales tax

Long-term debt activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Sewer system bonds payable	8,190,000	0	(415,000)	7,775,000	460,000
OWRB water system note	0	4,000,000	0	4,000,000	100,000
Meter project note payable	821,123	0	(101,517)	719,606	105,686
	<u>9,011,123</u>	<u>4,000,000</u>	<u>(516,517)</u>	<u>12,494,606</u>	<u>665,686</u>

October 17, 2013, the TUA executed a \$4,000,000 note payable with the Oklahoma Water Resources Board for water system improvements. The note carries an annual interest rate of 2.64%, an annual administrative fee of 0.5%, and matures March 15, 2034. No funds were drawn during 2013, and the first semi-annual payment of \$100,000 is due September 15, 2014. An updated amortization schedule will be provided to the TUA once the project is completed. Debt service payments to maturity presented in these notes are estimated amounts only.

December 18, 2012, the TUA issued \$8,190,000 in revenue bonds with a variable interest rates from 1.75% to 2.35% and maturing November 1, 2026. The bonds were issued with a discount of \$48,592 which is being amortized over the life of the bonds beginning in 2013. Proceeds from the bonds were used to refund \$8,160,000 of bonds issued in 2004 with interest rates of 3% to 4.75%, resulting in interest savings in excess of \$1,000,000. The bonds are secured by all utility revenues and City sales taxes of 1%. Further, the TUA is required to maintain sufficient utility rates so that net

The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2013

revenues meet or exceed 1.25 times the maximum annual debt service of \$655,740, which is \$819,675. For the year just ended, the TUA did meet these requirements.

June 30, 2008, the TUA entered into a lease purchase agreement for a new metering system for its electrical and water utility systems. The lease is for a maximum of \$1.2 million, with \$800,000 due over 10 years and \$400,000 due over 15 years. The lease carries an annual interest rate of 3.95% with a .05% administration fee. A monthly fee of \$6 per meter was established to retire the debt. Such fees are transferred to a debt service fund monthly and must be sufficient to maintain 120% of the annual lease payments. For the year just ended, the TUA did meet these requirements.

Debt service requirements to maturity for all debt are as follows:

	<u>Principal</u>	<u>Interest</u>
2014	665,686	190,467
2015	710,065	322,474
2016	752,840	280,165
2017	777,395	260,859
2018	802,297	240,908
2019-2023	3,867,512	934,686
2024-2026	3,123,935	326,353
2027-2031	1,150,336	202,844
2032-2034	644,540	30,629
	<u>12,494,606</u>	<u>2,789,385</u>

6. Capital Assets

Capital asset activity for the year just ended is summarized as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance	Beginning Depreciation	Additions	Disposals	Ending Depreciation	Book Value
Non-depreciable									
Construction in progress	5,542	21,078	0	26,620	0	0	0	0	26,620
Land	197,555	30,795	0	228,350	0	0	0	0	228,350
Total non-depreciable	203,097	51,873	0	254,970	0	0	0	0	254,970
Depreciable									
Land improvements	59,250	0	0	59,250	59,250	0	0	59,250	0
Buildings & bldg equipment	2,557,829	0	0	2,557,829	996,001	76,923	0	1,072,924	1,484,905
Equipment	2,038,257	157,769	0	2,196,026	1,245,014	109,822	0	1,354,837	841,189
Roads, bridges, sidewalks	2,233,309	0	0	2,233,309	222,698	101,617	0	324,315	1,908,994
Total depreciable	6,888,645	157,769	0	7,046,414	2,522,964	288,362	0	2,811,326	4,235,088
Total governmental	7,091,743	209,642	0	7,301,384	2,522,964	288,362	0	2,811,326	4,490,059

The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2013

Business-type Activities	Beginning Balance	Additions	Disposals	Ending Balance	Beginning Depreciation	Additions	Disposals	Ending Depreciation	Book Value
Non-depreciable									
Construction in progress	323,897	981,209	0	1,305,106	0	0	0	0	1,305,106
Water rights	2,624,609	0	0	2,624,609	0	0	0	0	2,624,609
Land	186,216	96,722	(160,240)	122,698	0	0	0	0	122,698
Total non-depreciable	3,134,722	1,077,931	(160,240)	4,052,413	0	0	0	0	4,052,413
Depreciable									
Buildings & bldg equipment	101,000	0	0	101,000	65,660	2,440	0	68,100	32,900
Equipment	2,034,720	0	0	2,034,720	843,892	120,953	0	964,845	1,069,875
Utility systems	11,944,822	71,500	0	12,016,322	4,182,328	309,195	0	4,491,523	7,524,798
Total depreciable	14,080,542	71,500	0	14,152,042	5,091,880	432,588	0	5,524,469	8,627,573
Total business-type	17,215,263	1,149,431	(160,240)	18,204,455	5,091,880	432,588	0	5,524,469	12,679,986

Depreciation for the year just ended was as follows:

Governmental Activities		Business-type Activities	
General government	0	Administration	1,925
Building maintenance	51,025	Public works department	2,000
Police department	35,204	Sewer treatment plant	110,521
Fire department	57,605	Sewer & water lines	175,222
Code enforcement	0	Electric department	124,502
Emergency management	7,488	Water treatment plant	18,418
Street department	86,382	Economic development	0
Cemetery department	6,033		<u>432,588</u>
Park department	44,625		
	<u>288,362</u>		

7. Water Rights

The Pottawatomie County Development Authority (PCDA), Shawnee Municipal Authority (SMA), and TUA, entered into an agreement dated July 1, 1990, for construction of a reservoir for flood prevention, municipal water supply, and water-based recreation. The PCDA holds title to the reservoir and the SMA operates the reservoir and public raw water supply system. The SMA owns 85% of the water rights and the TUA owns 15% of the water rights. The project was financed with a grant of approximately \$3,267,840 from the Soil Conservation Service of the United States Department of Agriculture and by tax-exempt public purpose bonds of \$18,180,000. The SMA was to treat the water, retain its share, and deliver the TUA's 15% share to the TUA. To date, the TUA has not received any of the water.

During 2013, the TUA began purchasing easements for a raw water line from the reservoir to Tecumseh's water plant. Construction of the line began during 2014.

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2013**

8. Pension Plans

Defined Contribution Pension Plans

Eligible city employees participate in the City of Tecumseh defined contribution pension plan in the form of the Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF), administered by Bank One of Oklahoma City. Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. assigns the authority to establish and amend the benefit provisions of the plans that participate in the OMRF to the respective employer entities. All full-time regular employees of the city, other than the city manager, who are not covered by another plan, are eligible to participate in the OMRF and are fully vested after 10 years. Covered employees are required to contribute 4% of their gross payroll which the city pays for them. City contributions are variable and were 6% for the current year. Required employee contributions are 4%, with contributions over 4% optional. The payroll for city employees for the year was \$1,727,377. The payroll for city employees covered by the OMRF for the year was \$1,086,178. Actual city and employee contributions for the year were \$65,171 and \$43,447 respectively.

The city manager participates in the City of Tecumseh defined contribution pension plan in the form of the Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF CMO), administered by Bank One of Oklahoma City. Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. assigns the authority to establish and amend the benefit provisions of the plans that participate in the OMRF CMO to the respective employer entities. The city manager is required to contribute 7.5% of his gross payroll which the city pays for him. City contributions are variable and are currently 7.5%. City manager contributions over 7.5% are optional. Covered payroll for the city manager for the year was \$82,774. Actual city and city manager contributions for the year were \$6,208 each.

Defined Benefit Pension Plans

Oklahoma Firefighters Pension and Retirement System (OFFPRS)

Plan Description. The city contributes to the Oklahoma Firefighters Pension and Retirement System (OFFPRS), a cost-sharing multiple-employer defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The OFFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The OFFPRS is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. The OFFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan and may be obtained from their offices at 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105, or by calling 1-800-525-7461.

Funding Policy. Volunteer firefighters are not required to contribute, but the city is required to contribute \$60 per volunteer per year. The contribution requirement of the OFFPRS is an established rate determined by Oklahoma Statute and is not based on actuarial calculations. The city's contribution to the OFFPRS for the year ended December 31, 2013, 2012 and 2011 was \$1,080, \$960 and \$1,140 respectively, equal to the required contribution for each year.

The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2013

Funding Policy. Paid firefighters are required to contribute 8% of eligible salary, while the city is required to contribute 13%. The contribution requirement of the OFFPRS is an established rate determined by Oklahoma Statute and is not based on actuarial calculations. The city's contribution to the OFFPRS for the year was \$19,751, equal to the required contribution for the year. Employees contributed \$12,154. Eligible payroll was \$151,929.

Oklahoma Police Pension and Retirement System (OPPRS)

Plan Description. The city contributes to the Oklahoma Police Pension and Retirement System (OPPRS), a cost-sharing multiple-employer defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The OPPRS is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 50-103.1 et. seq. The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan and may be obtained from their offices at 1001 NW 63rd St., Suite 305, Oklahoma City, OK 73116, or by calling 1-800-347-6552.

Funding Policy. Police are required to contribute 8% of eligible salary, while the city is required to contribute 13%. The contribution requirement of the OPPRS is an established rate determined by Oklahoma Statute and is not based on actuarial calculations. The city's contribution to the OPPRS for the year was \$37,094, equal to the required contribution for the year. Employees contributed \$22,827. Eligible payroll was \$285,338.

9. Deferred Compensation Plan

The City provides a deferred compensation plan for its employees in accordance with Section 457 of the Internal Revenue Code that allows any employee to voluntarily defer receipt of up to 33 1/3% of gross compensation, not to exceed \$7,500 per year. Such deferred amount may be distributed to the employee upon retirement or other termination of employment, disability, death, or certain defined instances of financial hardship. All amounts of deferred compensation, property rights, and income attributable to such deferred compensation is the property of the City until paid to the employee or other beneficiary.

10. Workers' Compensation Plan

The City participates in the Oklahoma Municipal Assurance Group (OMAG) Workers' Compensation Plan (the Plan). The Plan became effective October 1, 1984. The purpose of the Plan is to provide workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year. A plan year normally begins at 12:01 am July 1 in any year and ends at midnight June 30 of the following year. The Plan, or its

The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2013

designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

Plan participants have the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, participants are responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. Participants have the right to the return of any Loss Funds set aside for claims which have not been paid out as benefits. Losses are limited to amounts set aside by the plan. City funds on deposit with OMAG at year end were \$51,120.

11. Budgets and Budgetary Accounting

The board of trustees adopts legally required annual operating budgets each year for each fund. The same generally accepted accounting principles basis of accounting used for fund financial reporting purposes is used for budgetary purposes. At the fund level, actual expenditures cannot exceed budgeted appropriations at the department level. Budgetary transfers between departments of the same fund are approved by the board when required. Supplemental appropriations, if needed, are approved by the board and submitted to the state auditor's office as required by state statutes. All appropriations lapse at the end of the fiscal year. Encumbrance accounting is not used.

12. Inter-fund Activity

	General Fund	Utility Fund	TGDA Fund	Net Transfers
General operations	300,000	(300,000)	0	0
TIF taxes	(70,969)	0	70,969	0
Capital grant	(162,526)	162,526	0	0
	<u>66,505</u>	<u>(137,474)</u>	<u>70,969</u>	<u>0</u>

	General Fund	Utility Fund	Net Internal Balances
Capital grant	(162,526)	162,526	0
Payroll and related	6,917	(6,917)	0
	<u>(155,609)</u>	<u>155,609</u>	<u>0</u>

13. Prior Period Adjustments

Adjustments to water system improvements of \$41,825 from prior periods were corrected during 2013.

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2013**

14. Subsequent Events

Management performed an evaluation of the City's activity through August 15, 2014, the date the audit report was available to be released, and has concluded that there are no significant subsequent events requiring disclosure through that date.

CITY OF TECUMSEH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Accrual Basis)

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	BEGINNING DEFERRED REVENUE	REVENUES	EXPENSES	ENDING DEFERRED REVENUE
U.S. Department of Housing and Urban Development <i>Oklahoma Department of Commerce</i>						
Community Development Block Grants/State's Program	14.228	14740 CDBG 11	0	21,350	21,350	0
Community Development Block Grants/State's Program	14.228	15663 CDBG 13	0	318,400	318,400	0
Total U.S. Department of Housing and Urban Development			0	339,750	339,750	0
U.S. Department of Transportation <i>Oklahoma Highway Safety Office</i>						
State and Community Highway Safety	20.600	PT-13-03-21-03	0	9,183	9,183	0
Impaired Driving Enforcement	20.608	164AL-14-03-07-04	0	12,777	12,777	0
NHTSA Discretionary Safety Grants	20.614	CE-13-03-42-03	0	2,518	2,518	0
Total U.S. Department of Transportation			0	24,478	24,478	0
U.S. Department of Justice - Bureau of Justice Assistance <i>N/A</i>						
Public Safety Partnership and Community Policing Grants	16.710	2010-UM-WX-0258	25,256	25,256	25,256	0
						0
U.S. Department of Homeland Security <i>Oklahoma Department of Civil Emergency Management</i>						
Assistance to Firefighters Grant - FF equipment	97.044	EMW-2009-FO-00535	3,735	0	0	3,735
TOTAL FEDERAL AWARDS			28,991	389,484	389,484	3,735

CITY OF TECUMSEH
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Accrual Basis)

STATE GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	GRANTOR'S NUMBER	BEGINNING DEFERRED REVENUE	REVENUES	EXPENSES	ENDING DEFERRED REVENUE
Oklahoma Department of Commerce Central Oklahoma Economic Development District Community Expansion of Nutrition Assistance (CENA)	2012-2013 CENA	0	5,000	5,000	0
Oklahoma Department of Agriculture N/A Rural Fire Defense		0	4,474	4,474	0
TOTAL STATE AWARDS		0	9,474	9,474	0

Casey J. Russell CPA, Inc.

Casey J. Russell, C.P.A., M.B.A.
Autumn L. Williams, C.P.A., Esq.
Member AICPA & OSCP

2812 NW 57th, Street, Suite 102
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743
Fax: (405) 607-8744
Email: caseycpa@hotmail.com

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Tecumseh, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Tecumseh, Oklahoma, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies

used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tecumseh, Oklahoma, as of December 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tecumseh, Oklahoma's basic financial statements. The accompanying schedule of expenditures of federal awards and state awards is presented for purposes of additional analysis is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and state awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 15, 2014, on our consideration of the City of Tecumseh, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Tecumseh, Oklahoma's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Carey J. Paul".

Oklahoma City, Oklahoma
August 15, 2014

Casey J. Russell CPA, Inc.

Casey J. Russell, C.P.A., M.B.A.
Autumn L. Williams, C.P.A., Esq.
Member AICPA & OSCP

**2812 NW 57th Street, Suite 102
Oklahoma City, Oklahoma 73112**

Phone: (405) 607-8743
Fax: (405) 607-8744
Email: caseycpa@hotmail.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
City of Tecumseh, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Tecumseh, Oklahoma, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise City of Tecumseh, Oklahoma's basic financial statements, and have issued our report thereon dated August 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Tecumseh, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Tecumseh, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Tecumseh, Oklahoma's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

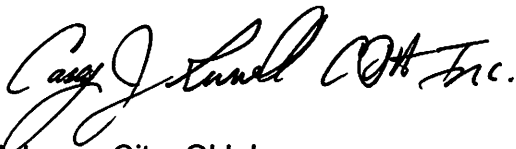
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Tecumseh, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Casey J. Lund CPA, Inc.", is written over a horizontal line.

Oklahoma City, Oklahoma
August 15, 2014